

FACT SHEET

Why Incorporate Sustainability Improvements Into the Lease?

- **Lower operating expenses**
- **Increase occupancy and base rents**
- **Meet corporate sustainability goals**
- **Improve employee productivity**
- **Attract and retain employees**
- **Anticipate future regulations**



GREEN LEASING

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What Is Green Leasing?

Green leasing, also known as energy aligned leasing, changes the lease documents to define how the parties will implement sustainability or energy measures. More specifically, green leases are used to overcome the split incentive problem: in many commercial lease structures, the party expending capital for an energy efficiency upgrade does not benefit from the savings created by that upgrade. This occurs most frequently in leases where tenants pay for energy usage but the landlord is wholly responsible for capital improvements. The split incentive barrier is frequently cited by property owners as a key barrier to energy efficiency projects. By addressing the split incentive and other energy issues, landlords and tenants can use the lease as an avenue for significant energy savings.

LEASING STAKEHOLDERS

In addition to landlords and tenants, leasing agents and lawyers play key roles in the leasing process. For any company looking to adopt green leasing practices, gaining buy-in at the outset of the lease process is critical. The earlier in the process both parties make their sustainability goals clear, the more likely it is that green language will stay in the finalized lease.

AVAILABLE RESOURCES

A collaborative group including the U.S. Department of Energy, U.S. GSA, BOMA, IMT, NRDC, Rocky Mountain Institute, EEBHub, and New York University recently created www.greenleaselibRARY.com to serve as a central destination for green leasing resources. Well-known lease resources found on the website include:

- [BOMA's Commercial Lease Guide](#)
- [REALPAC Standard Green Office Lease](#)
- [California Green Lease Toolkit](#)
- [The RMI-BOMA Guide For Landlords and Tenants](#)

A Report on Accelerating Commercial Building Energy Retrofits



Green Leasing
February 15, 2013

Green Leases For Different Lease Types

Most commercial leases fall under 3 types: full service gross, modified gross, and triple net.

Office leases tend to be some form of gross lease while retail leases are almost always triple net (tenant pays for insurance, taxes, and operating expenses).

Triple net and modified gross leases frequently create the split incentive problem, so adjusting cost pass-through language is often the first step for those leases.

Full service leases allow the landlord to benefit directly from any energy savings, so tenant engagement programs are vital.

Sub-metering, utility data sharing, and green tenant build-outs are best practices for all lease types.

What Can Governments Do to Promote Green Leases?

State and local governments have two main avenues to promote green leasing: adopt green lease policies for their own government agencies, and engage local stakeholders to encourage their adoption of green lease strategies.

Many state governments have already adopted some form of green lease policy for their own agencies. For example, Washington state passed legislation requiring the government to only lease space in buildings that have achieved an Energy Star label for superior energy performance. For governments, green leases serve dual purposes of lowering facilities operating expenses and providing an example for the private.

Governments can also encourage green leases in the private sector by engaging key stakeholder groups (landlords, tenants, leasing agents, and lawyers) in a dialogue about the savings potential of leasing and landlord-tenant collaboration. In 2011, New York City brought together dozens of stakeholders to develop a solution to the split incentive problem. The resulting Energy Aligned Clause has been popularized by Mayor Bloomberg and is intended for use in future city government leases. Since local real estate markets tend to have unique characteristics, this sort of government engagement helps private sector stakeholders view energy efficiency concepts through a local lens.

FEDERAL LEASES GOING GREEN

The U.S. General Services Administration is the nation's largest tenant with roughly 190 million square feet leased. In response to the Energy Independence and Security Act of 2007 and Executive Order 13514, GSA has changed its leasing policies and procedures to reflect an emphasis on energy efficient buildings. Most notably, with little exclusion the federal government will only lease space in a building with an ENERGY STAR score of 75 or higher. Other requirements include lighting and plumbing fixture standards, energy usage reporting, and a preference for buildings located near public transportation. GSA will continue to update the sustainability language in its various leases on a regular basis.

LOCAL COMPANIES USING GREEN LEASES

Many real estate firms with holdings in Virginia and Maryland already utilize green lease language in their standard lease forms, including The Tower Companies, EDENS, and Brandywine Realty Trust. A case study on Brandywine is [available on the Department of Energy website](#).

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